

April 18, 2008

Kevin Kennedy  
Chief, Program Evaluation Branch  
Office of Climate Change  
California Air Resources Board  
1001 "I" Street  
Sacramento, CA 95812

### **Role of Offsets in Reducing Greenhouse Gas Emissions under AB 32**

Dear Mr. Kennedy:

Sierra Club California believes that offsets may have a role in reducing greenhouse gas emissions as required by the California Global Warming Solutions Act of 2006, but that offsets should be limited to assure the integrity of the emission reductions and fulfill the letter and spirit of the law. Offsets can provide a limited amount of flexibility under the cap where it is technically or economically difficult to reduce emissions directly. But, without limits, an offset program would create a strong temptation to seek offsets that may appear to be cheaper and easier to acquire than emissions reductions within the system, but that raise the risk of underperformance or nonperformance

AB 32, which we strongly supported, drew much of its backing from the prospect that an enforceable cap on our state's greenhouse gas emissions would spur the technological innovations required to fundamentally transform our energy economy, and that California would benefit by creating the green technologies that the rest of the country and the rest of the world will demand. Curbing global warming will require a rapid greening of our vehicles, fuels and power plants. The clean energy revolution will be retarded if those sectors are able to comply with AB 32 requirements by outsourcing their emission reductions to other sectors and other jurisdictions.

AB 32 sets an economy-wide limit on global warming pollution, so reductions will be needed from every major sector of the state's economy. Offsets do not provide additional reductions towards the 2020 limit, but rather provide emission reductions in a sector outside the cap and trade program *instead of* emission reductions in a capped sector. Therefore, CARB should use regulatory programs and other policies to achieve emission reductions in sectors outside the scope of the cap and trade program, so that they can contribute to meeting the statewide 2020 limit, and the further reductions necessary to meet the state's 2050 reduction goal. A necessary precondition to including offsets in a cap-and-trade program is a tight cap; *if* offsets are allowed, they should be subject to at least the following conditions:

Represent a limited portion of covered entities' compliance obligation, to ensure that offsets are a limited fraction of the reductions the overall program would achieve;

Discounted where appropriate to compensate for loss of local or in-state environmental benefits and for the uncertainty of the emission reductions;

Limited to specific project types that have stringent protocols to ensure the emission reductions are real, quantifiable, additional (beyond business as usual), permanent, subject to independent third-party verification and enforceable by CARB; and

Priority should be given to projects that will provide environmental co-benefits to California, especially in communities suffering from excessive levels of pollution. AB 32 requires CARB to ensure that its implementation rules “complement, and do not interfere with, efforts to achieve and maintain federal and state ambient air quality standards and to reduce toxic air contaminant emissions.”

Offsets from sinks, such as afforestation, reforestation and avoided deforestation, as well as other changes to land use, should not be allowed on a project basis. Accumulating research indicates that additionality and performance risk are very difficult to measure, even to the extent of separating the effects of climate change itself from human activities such as forest management. For the time being, the risks of underperformance and effective leakage in sinks-based offsets outweigh the robustness of possible benefits. While government and private support of improved soil carbon content and reforestation are highly desirable, it is impossible to retain the integrity and effectiveness of a program to reduce domestic CO<sub>2</sub> emissions if it is combined with an offset mechanism for efforts to preserve and enhance carbon sinks. We need both 80% reductions in domestic CO<sub>2</sub> emissions and strong programs to enhance carbon sinks; we should not “trade” them off against each other. The ability of forests to store carbon should not become a justification for maintaining higher emissions of air pollution.

Respectfully,

Bill Magavern  
Director